

24 June 2021

Andy Knight
Chief Executive
Gas Industry Company
By email to consultations@gasindustry.co.nz

Dear Andy

Submission – Gas Market Settings Investigation

1. This is a submission by the Major Electricity Users' Group (MEUG) on the Gas Industry company (GIC) consultation paper "Gas Market Settings Investigation," 21st May 2021.¹
2. MEUG members have been consulted in the preparation of this submission. This submission is not confidential. Members may make separate submissions.
3. The consultation paper and the companion paper by Concept Consulting, Gas demand and supply projections – 2021 to 2035, published 27th May, has improved understanding of the complexities of the current gas market and scenarios for the future role of the sector.
4. The high-level view noted in the consultation paper below stands out as noteworthy and is supported by MEUG²:

"In terms of the industry's ability to support security of supply during the transition – both for electricity generation and for industry – it is clear that without significant investment in the upstream, the gas reserves and contingent resources in existing fields will not come to market and security of supply will be compromised. There are likely to be steps that can be taken to improve the investment climate so that the required investment is more likely to happen."
5. MEUG shares the view of many, including as recently as the final report by the Climate Change Commission and the concurrent consultation by the Infrastructure Commission on an Infrastructure Strategy, that gas has an important role to play in:
 - a) the transition towards more renewable sources of energy for process heat and
 - b) to ensure flexibility and optionality for least cost back-up generation to manage the unpredictability of renewable electricity generation technologies.

¹ Document URL <https://www.gasindustry.co.nz/work-programmes/gas-market-settings-investigation/developing-2/consultation-3/document/7263> at <https://www.gasindustry.co.nz/work-programmes/gas-market-settings-investigation/developing-2/consultation-3/>.

² Consultation paper p2.

6. We acknowledge the list of potential actions and solutions have yet to be analysed as explained in the paper³:

“Gas Industry Company has not yet assessed these and intends to consider them and respond after this consultation and receiving feedback.”

7. MEUG intends to participate in the proposed next step by the GIC to consult on its assessment of possible next steps, so we have not considered in detail the 12 potential actions and solutions listed. We do though have preliminary comments on 2 of those items, both of which we support:

- a) “Providing clarity about the boundaries of the ETS to enable industry decision makers to better assess the viability of existing assets or proposed investments. This could include clarifying where policy outcomes are not expected to be achieved by the ETS and how alternative policy will be assessed.”

Put another way MEUG notes that the ETS is the primary regulatory mechanism to facilitate least cost and optimal timing of changes across the economy. Any proposed non-ETS intervention, such as proposed bans on gas use or exploration, needs to consider the incremental benefits and incremental costs relative to outcomes expected with an ETS with decreasing volumes and increasing C-prices in line with our trading partners.

- b) “Reconsidering the suitability of the price / quality path regulatory framework for gas pipelines in an industry undergoing transformational change, where consumers have an interest in the maintenance of the network for security of supply.”

MEUG made the same point in a submission on 28th May 2021 to the Commerce Commission on their consultation on Feedback on fit for purpose regulation.⁴

8. MEUG looks forward to the next GIC consultation assessing potential actions and solutions.

Yours sincerely



Ralph Matthes
Executive Director

³ Ibid p3.

⁴ Refer <http://www.meug.co.nz/node/1139>.